Financing the Future of American Agriculture

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Agricultural lenders are playing a major role in the corporatization of American agriculture. For decades, lenders have supported the industrialization of agriculture by favoring those farmers who have specialized in specific enterprises, have followed standard production practices, and have operated on a commercial scale. Specialization, standardization, and consolidation are the fundamental principles of industrialization. It hasn't just been a matter of minimizing repayment risks; lenders wanted their borrowers to succeed. They simply believed that specialization, standardization, and consolidation were the keys to successful farming. Until recently, the industrialization of agriculture meant larger farms and fewer farmers, but now it means increasing corporate control.

Today, many agricultural economists proclaim corporate contracting as farmers' only means of gaining access to the technology, capital, and markets they will need to be competitive in the 21st century. Many agricultural lenders have heeded the economists, requiring their loans for production of specific commodities to be accompanied by production contracts. Some agricultural industries, such as poultry and egg and processing fruits and vegetables, have been dominated by contract production for decades. Contracting swept through the hog industry like a wildfire during the 1990s. The last USDA report I have seen on the issue indicated that more than 30 percent of all U.S. agricultural production was already produced under corporate contracts.

Dairy seems the next likely candidate for contracting, with increasing numbers of large-scale confinement dairy operations dominating the industry. Widespread use of genetically engineered (GE) crops designed for specific product characteristics, such as low fat or high protein, would almost certainly bring crop production under increasing corporate control. Producers would need the “right genetics” to gain access to markets, and the only way to get those genetics would be through a contract with the corporation holding the patent. The conventional wisdom has become that the key to surviving in agriculture today is no longer a matter of either getting bigger or get out, but rather of giving in to corporate control.

The current “corporatization” of agriculture is the final stage of the industrialization process, the ultimate consolidation of power and control. Most of the land and basic production facilities may continue to be owned by individual farmers and family corporations, but production increasingly is carried out under direction of giant agribusiness corporations. Increasingly, the corporations that control American agriculture are multinational in scope of operation and have stockholders scattered around the world.

Agricultural lenders apparently have assumed their loans to contract producers were more secure than those to independent producers, who have no assured price for their products and sometime no assured market. Under most comprehensive contractual arrangements, the corporate contractor assumes the price risks and much of the production risks, leaving the contract farmer with the financial risk of owning the facilities and the environmental risks of waste disposal.

The contract farmer typically receives a predetermined payment per head or per unit of production in return for his or her services. Independent farmers assume all of the risks in hopes of realizing a profit, rather than a predetermined payment for services. On the surface, lending to a contract producer would seem to be less risky.

Agricultural lenders have also been led to believe that by supporting contract agriculture they were supporting the local agricultural economy, and thus, supporting the local community. Rural people have been led to believe they must rely on outside investors, such as agribusiness corporations, to support local economic development. Outside investment will bring badly needed jobs and income, stimulate the local economy, and expand the local tax base, so they are told. Economically depressed rural communities will be able to afford better schools, better health care, and expanded social services, and will attract a greater variety of retail outlets – restaurants, movie theaters, and maybe even a Wal Mart. Through outside investment, rural communities can catch up or keep up with the rest of society.

Community leaders are told that contract agriculture is the only way to save their agricultural economy. They are often promised new jobs, more income, an expanded tax base, and an opportunity to "catch up" with the rest of American society, if they will welcome corporate agriculture to their communities. Local leaders are courted or coerced, as necessary, to shape local policies to accommodate industrial production, such as large-scale livestock and poultry confinement feeding operations. Local residents are told that local regulations to protect the public health and natural environment will drive existing farmers out of business, will stifle future economic development, and will doom their community to continued "backwardness."

To many rural people, including agricultural lenders, these arguments have seemed compelling. However, a corporate agriculture is fundamentally different from the agriculture we have known in the past. A corporation is a legal entity, but it is not a person. It has no family, no community, and increasingly, no nationality. The multinational corporations that increasingly control American agriculture have no commitment to America and certainly not to farming in America. The corporations may help their contract growers get loans to buy buildings and equipment, but they will abandon those growers if the contractual arrangement becomes unprofitable or even troublesome.

Most agricultural contracts are short term, from batch-to-batch for poultry and livestock and year-to-year on crops. Longer-term contracts typically have easy escape clauses for the corporation, allowing for culling of "inefficient" producers or closing of "unprofitable" processing facilities. A producer who loses his or her contract may be left with large outstanding loans on production facilities that have no alternative economic use. Growing awareness of health and environmental risks associated with large-scale confinement livestock and poultry operations increase the economic and legal vulnerability of the contract producer. The financial and environmental risks of contract production may be far greater than lenders have been led to believe.

Reliance on corporate agriculture to support rural economic development also is far more risky for rural communities than community leaders have been led to believe. Most of the communities that have relied on corporate agriculture in the past were, and still are, economically depressed. A few local investors, including some previous farmers, end up owning most of the contract facilities, often leaving the actual "farm work" to low paid, menial laborers. In general, young people are still forced to leave their home communities to find quality employment opportunities elsewhere. The promised economic multiplier effects of outside investment on the local economy never materialized. Tax incentives and environmental concessions granted to corporations have increased demand for public services and erased many of the potential tax benefits. In addition, increased air and water pollution raises legitimate concerns for human health as well as health of the local environment. If local residents complain, the corporations threaten to move their operations elsewhere where environmental regulations are less bothersome and local people are less hostile; increasingly, they are carrying through with such threats. When the corporation finds somewhere else, often in another country, where people will work even harder for less pay, they move on – leaving local residents to clean up the mess.

Thankfully, continued industrialization and corporatization is not the only viable alternative for the future of America's farmers and rural communities. The alternative is sustainable agriculture – an agriculture that meets the needs of the present while leaving equal or better opportunities for the future. A sustainable agriculture exploits neither land nor people – it is ecologically sound, economically viable, and socially responsible.

Thousands of American farmers are already finding ways to farm sustainably, and these farmers sometimes need to borrow money to finance their efforts. Their farms are diverse rather than specialized, individualistic rather than standardized, and individually rather than corporately controlled. These new American farmers are reducing their reliance on off-farm inputs through more intensive management of on-farm resources, for example, using crop rotations or managed grazing. Many are developing their own direct marketing channels, through farmers markets or community supported agriculture (CSA), and other means. Many are pursuing alternative enterprises – things other than corn, soybeans, cattle, chickens, or hogs. They are working together with other farmers and with their customers to develop more profitable and personally rewarding relationships. And, many of these farmers are living and working on small farms.

Agriculture lenders have an important role in helping create a more sustainable future for agriculture in America. But, agricultural lenders must open their minds to the possibility of success for a fundamentally different kind of American agriculture. Today, the large-scale, specialized contract producers of basic agricultural commodities are the ones most likely to fail. They will not have the promised access to technology or markets they will need to compete with corporate agriculture in the future. Those who are surviving today by becoming corporate contract producers are being forced to assume far more economic and environmental risks than can be justified by the meager rewards of contract farming. Smaller, diversified, part-time farmers are far more likely to be able to service and repay their loans in the future than are the large, specialized producers.

The smaller sustainable producers are not competing with corporate agriculture; they are doing something fundamentally different. However, many potentially successful small farmers are being denied an opportunity to succeed because of outdated perceptions on the part of those who decide which farmers gain access to capital. Agricultural lenders have important roles to play in shaping the future of American agriculture. They can't determine who will succeed and fail but they can affect the balance of opportunity. They can continue to support the trends of the past or they can help America's farmers and rural communities build a brighter, more sustainable future.